

INTERSTATE
DEPARTMENT STORES, INC.
NEW YORK, N. Y.

ANNUAL REPORT

YEAR ENDED
JANUARY 31, 1943

INTERSTATE DEPARTMENT STORES, INC.

DIRECTORS

ROBERT S. ADLER	HAROLD F. LINDER
REAGAN P. CONNALLY	WILL I LEVY
CHRISTIAN E. DAHLGREN	WILLIAM ONASCH
CHARLES E. FEDERMAN	ALBERT PARKER
PAOLINO GERLI	BENJAMIN W. STREIFLER
R. C. KRAMER	HAROLD J. SZOLD

OFFICERS

<i>President</i>	REAGAN P. CONNALLY
<i>Chairman of the Board</i>	R. C. KRAMER
<i>Vice President—Store Operation</i>	WILLIAM ONASCH
<i>Vice President—Merchandising</i>	BENJAMIN W. STREIFLER
<i>Treasurer</i>	FRANK J. MELEY
<i>Secretary</i>	ALBERT PARKER
<i>Assistant Treasurer</i>	DAVID SPIELMAN
<i>Assistant Secretary</i>	EDWARD C. SCHENKEL

Transfer Agent

<i>Common and Preferred Stock</i> ..	BANK OF THE MANHATTAN COMPANY..	New York
<i>Registrars</i>		
<i>Common Stock</i>	MARINE MIDLAND TRUST COMPANY...	New York
<i>Preferred Stock</i>	NATIONAL CITY BANK.....	New York
<i>General Counsel</i>	PARKER, CHAPIN AND FLATTAU.....	New York
<i>Public Accountants</i>	S. D. LEIDESDORF & Co.....	New York
<i>Executive and General Offices</i> ..	111 EIGHTH AVENUE.....	New York

APRIL 16, 1943.

TO THE STOCKHOLDERS OF
INTERSTATE DEPARTMENT STORES, INC.

There are submitted herewith the Consolidated Financial Statements of the Company and its subsidiaries as of January 31, 1943, and for the fiscal year then ended.

The consolidated net profits amounted to \$1,124,873 after Federal Income and Excess Profits Taxes of \$2,450,000 compared with a net profit for the preceding year of \$1,117,655 after Federal Income and Excess Profits Taxes of \$900,000. The net profit after Preferred dividends was equivalent to \$3.27 per share on the Common Stock compared with earnings of \$3.23 on the same number of shares in the preceding year.

Sales for the year ended January 31, 1943 were \$38,069,423 compared with \$31,302,110 last year in the same number of stores.

The net working capital as of January 31, 1943 was \$5,951,131 compared with \$4,995,596 in the previous year.

Customers' accounts receivable, after reserves, were \$1,197,206 on January 31, 1943 as compared with \$2,082,634 on January 31, 1942, a decrease of \$885,428. These accounts are in good current condition and reserves have been set up which, in the opinion of the management, are adequate to provide for losses.

During the fiscal year the Company purchased for retirement 990 shares of Preferred Stock at an average cost of \$91.13 per share.

Due to Government war time restrictions and lack of materials, only a limited amount of remodeling work was done. However, the Company did a great deal of maintenance work in order to keep our stores in good condition during the war period.

Although operating results for the past year were favorable, your Board of Directors and officers are fully aware of the likelihood that the post war period will create new and difficult problems. Since it is impossible to foretell what these problems will be and the extent to which they may adversely affect the Company, no reserves were set up to provide for such contingencies. It is expected, however, that the substantial amounts of the last two years' earnings which have been added to Surplus should greatly strengthen the Company's position to make whatever adjustments may become necessary. This subject is being given constant thought and considerable post war planning has been done and will continue to be done by officers and qualified, selected employees.

The management takes this opportunity again to express its appreciation for the excellent work of the personnel of the organization during the present trying period with so many of our employees and officials in the service of our country.

Yours very truly,

REAGAN P. CONNALLY,
President.

INTERSTATE DEPARTMENT AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

ASSETS

	As at January 31, 1943	As at January 31, 1942	
CURRENT ASSETS:			
Cash on hand and in banks	\$ 2,996,599		\$ 1,034,324
U. S. Treasury Certificates of Indebtedness—Series E (at cost) and accrued interest	300,439		
Accounts Receivable—Customers:			
Charge	\$ 138,527	\$ 109,881	
Layaway and C. O. D.	442,223	423,642	
Deferred payment	790,678	1,783,532	
	1,371,428	2,317,055	
Less: Reserves for doubtful accounts, etc.	174,222	234,421	
	1,197,206	2,082,634	
Due from insurance companies, vendors and others	101,344	111,764	
Less: Reserve for doubtful accounts	3,500	4,000	
	97,844	107,764	2,190,398
Note receivable and accrued interest (re: sale of real estate)			85,024
Merchandise inventories—(Note A)	6,054,002		5,090,260
Total Current Assets	10,646,090		8,400,006
OTHER ASSETS:			
Post-war refund on Federal excess profits taxes.....	204,622		
Miscellaneous other assets, including rent deposits, due from landlords, employees, etc., less reserves	47,868	252,490	46,191
		46,191	46,191
FIXED ASSETS—AT COST:			
Land and buildings		750,000	
Less: Reserve for depreciation		102,211	
		647,789	
Alterations and improvements to leased premises	651,097	717,610	
Less: Reserve for depreciation	395,741	398,418	
	255,356	319,192	
Fixtures and equipment	1,227,788	1,147,373	
Less: Reserve for depreciation	490,460	449,891	
	737,328	697,482	1,664,463
LEASEHOLDS	272,029	286,329	
Less: Reserve for amortization	155,528	154,584	131,745
DEFERRED CHARGES:			
Prepaid insurance, expenses, etc.	275,854	304,049	
Supplies	85,625	123,572	427,621
	\$12,369,244		\$10,670,026

The Notes to Accounts are an integral part of this statement.

TMENT STORES, INC.

RY COMPANIES

HEET AS AT JANUARY 31, 1943

LIABILITIES

	As at January 31, 1943		As at January 31, 1942	
CURRENT LIABILITIES :				
Notes payable—bank			\$	300,000
Accounts payable—trade creditors (including liability for merchandise in transit)	\$ 1,266,794			1,605,214
Accrued salaries and expenses	471,514			378,689
Accrued Federal income and excess profits taxes	2,628,719			898,905
Accrued taxes—other Federal, state and local	215,623			186,956
Sundry other liabilities	78,719			34,646
Dividends declared on preferred stock, payable February 1, 1943	33,590			
Total Current Liabilities	4,694,959			3,404,410
Due to landlord—not current	466			15,710
Notes payable—bank (long term, prepaid February 26, 1942)				162,000
Total Liabilities	4,695,425			3,582,120
Reserves for replacement of fixtures	11,250			11,250
Minority interest in subsidiary company				7,259
CAPITAL STOCK :				
Preferred Stock 7% Cumulative, Par Value \$100.00 Per Share—(Note B) :				
	Shares		Shares	
Authorized and issued	24,800	2,480,000	24,800	2,480,000
Less: Held in treasury for retirement.....	5,656	565,600	4,666	466,600
Outstanding	19,144	1,914,400	20,134	2,013,400
Common Stock—Without Par Value:				
Authorized	320,000		320,000	
Issued	308,946	1,580,252	308,946	1,580,252
Less: Reacquired and held in treasury	7,100	35,500	7,100	35,500
Outstanding	301,846	1,544,752	301,846	1,544,752
SURPLUS—PER STATEMENT No. 3:				
Earned	\$ 2,096,329		\$ 1,410,443	
Appropriated	35,500		35,500	
Capital	2,071,588	4,203,417	2,065,302	3,511,245
		\$12,369,244		\$10,670,026

atement and should be read in conjunction herewith.

INTERSTATE DEPARTMENT STORES, INC.
AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF PROFIT AND LOSS
FOR THE YEAR ENDED JANUARY 31, 1943

	For the Year Ended January 31, 1943		For the Year Ended January 31, 1942	
NET SALES:				
Owned departments	\$33,331,875		\$27,505,155	
Leased departments	4,737,548		3,796,955	
		\$38,069,423		\$31,302,110
COST OF GOODS SOLD, OPERATING AND ADMINISTRATIVE EXPENSES		34,291,901		29,055,652
		3,777,522		2,246,458
LESS:				
Depreciation on building, alterations and improvements, fixtures, equipment, etc.	198,844		177,460	
Amortization of leaseholds	15,244	214,088	13,600	191,060
		3,563,434		2,055,398
OTHER INCOME AND Deductions—NET		11,680		36,552
		3,575,114		2,018,846
LESS:				
Proportion of profit of a subsidiary company applicable to its minority interest		241		1,191
NET PROFIT, BEFORE PROVISIONS FOR FEDERAL INCOME AND EXCESS PROFITS TAXES		3,574,873		2,017,655
PROVISION FOR FEDERAL INCOME TAXES	515,000		520,000	
PROVISION FOR FEDERAL EXCESS PROFITS TAXES, after deducting post-war credit of \$204,622, net of \$10,538 debt retirement allow- ance for the current period	1,935,000	2,450,000	380,000	900,000
NET PROFIT—Statement No. 3		\$ 1,124,873		\$ 1,117,655

STATEMENT NO. 3

CONSOLIDATED STATEMENT OF SURPLUS
FOR THE YEAR ENDED JANUARY 31, 1943

	For the Year Ended January 31, 1943		For the Year Ended January 31, 1942	
EARNED SURPLUS:				
Balance—beginning of period		\$ 1,410,443		\$ 677,814
ADD:				
Net profit for the year ended January 31, 1943-1942— Statement No. 2		1,124,873		1,117,655
		\$ 2,535,316		\$ 1,795,469
LESS:				
Dividends paid on Preferred Stock—four quarterly divi- dends	\$ 137,141		\$ 143,549	
Dividends paid on Common Stock	301,846	438,987	241,477	385,026
Balance—end of period—Statement No. 1		\$ 2,096,329		\$ 1,410,443
APPROPRIATED SURPLUS:				
Balance—beginning and end of period—Statement No. 1		\$ 35,500		\$ 35,500
CAPITAL SURPLUS:				
Balance—beginning of period		\$ 2,065,302		\$ 2,061,167
ADD:				
Discount on 7% Preferred Stock purchased for redemp- tion (990 shares January 31, 1943, 645 shares Janu- ary 31, 1942)		8,786		4,135
		\$ 2,074,088		\$ 2,065,302
LESS:				
Adjustment in connection with acquisition of minority interest		2,500		
Balance—end of period—Statement No. 1		\$ 2,071,588		\$ 2,065,302

The notes to accounts are an integral part of these statements and should be read in conjunction herewith.

INTERSTATE DEPARTMENT STORES, INC.

AND SUBSIDIARY COMPANIES

NOTES TO ACCOUNTS AS AT JANUARY 31, 1943

NOTE A—Merchandise inventories, as at January 31, 1943, which include merchandise in transit in the amount of \$368,551.00, are stated on the following bases which are consistent with those used in the preceding year:

At Stores—	At the lower of cost, or market, as calculated by the retail method of inventory valuation.
At Warehouses—	At the lower of cost (substantially on the "First in, First out", basis) or replacement market.
In Transit—	At specific invoice cost.

NOTE B—The 7% Cumulative Preferred Stock is redeemable and entitled upon liquidation, dissolution or winding up of affairs, whether voluntary or involuntary, to \$110.00 per share or an aggregate of \$2,105,840.00 on January 31, 1943 and accrued dividends.

The Company is obligated to reacquire for retirement by redemption or purchase at least 3% (975 shares) annually, of the largest amount in par value of the Preferred Stock which shall ever have been issued and outstanding. As at January 31, 1943 the Company held 5,656 shares of Preferred Stock in the treasury, of which 4,975 shares were reacquired for retirement in accordance with requirements of prior years. On or before the 31st day of December 1943, the Company is obligated to reacquire an additional 294 shares of its Preferred Stock.

The financial statements are subject to the final determination of Federal, state and other taxes.

ACCOUNTANTS' REPORT

TO THE BOARD OF DIRECTORS,
INTERSTATE DEPARTMENT STORES, INC.,
NEW YORK, N. Y.

We have examined the consolidated balance sheet of Interstate Department Stores, Inc. and subsidiary companies as at January 31, 1943 and the consolidated statements of income and profit and loss and surplus for the year then ended; have reviewed the system of internal control and the accounting procedures of the companies and, without making a detailed audit of the transactions, have examined or tested accounting records of the companies and other supporting evidence by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary.

Our examination of the merchandise inventories included a general review of the inventory procedures and records, including the retail inventory records, and tests to determine the mathematical accuracy of the inventory schedules. In addition, our representatives were present at the Company's warehouses, as well as at certain stores which we considered to be representative and which we selected for test purposes, to determine that the inventory procedures were carried out effectively and to make tests of the quantities in the inventory. We also communicated directly with vendors who are holding Company's merchandise pending delivery instructions from the Company. Our examination of the customers' accounts receivable included tests by direct communication with a selected number of customers at stores selected by us.

In our opinion, the accompanying consolidated balance sheet and related consolidated statements of income and profit and loss and surplus, together with the Notes to Accounts, present fairly the consolidated position of Interstate Department Stores, Inc. and subsidiary companies at January 31, 1943, and the consolidated results of their operations for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

S. D. LEIDESDORF & CO.

New York, N. Y.
March 30, 1943.

INTERSTATE DEPARTMENT OF BANKS, INC.
AND SUBSIDIARY COMPANIES
NOTES TO ACCOUNTS
AS AT JANUARY 31, 1934

THIS REPORT IS SOLELY FOR STATISTICAL INFORMATION FOR STOCKHOLDERS, AND IS NOT A REPRESENTATION, PROSPECTUS OR CIRCULAR IN RESPECT OF ANY STOCK OF ANY CORPORATION, AND IS NOT TRANSMITTED IN CONNECTION WITH ANY SALE OR OFFER TO SELL OR BUY ANY STOCK OR SECURITY NOW OR HEREAFTER TO BE ISSUED, OR WITH ANY PRELIMINARY NEGOTIATION FOR SUCH SALE.